



Sixty-Eighth Lesson

Following the Leaders

Not Always the Most Profitable Practice in Present-Day Stock Trading.

OLD-SCHOOL speculators, and many traders who are active in current markets, hold to the theory that it pays to single out the market leaders and limit trading activities to these stocks. The soundness of this theory in present-day markets depends on our definition of leadership.

If we limit our selection to a few well-known railroad and industrial issues that have been regularly active and popular speculative mediums for many years, then our operations are likely to be handicapped by numerous disadvantages, as we shall try to point out hereinafter. On the other hand, if we make our definition sufficiently flexible to recognize the fact that active leadership is constantly changing, from year to year and from month to month, then we greatly reduce the handicap above mentioned, although it may not be entirely eliminated.

A. Changed Condition

A phrase that was popular for many years, viz., "As Steel goes, so goes the market," is no longer true. The most casual observer of the market during the past year or two has noticed that such old-time leaders as U. S. Steel and New York Central remained within a five or six-point range for weeks and months at a time, while hundreds of other issues were having wide and persistent swings. Certain sections of the list were fairly boiling while Baldwin lapsed into a comatose condition. Some formerly obscure issues, and many modern listings, staged both private and co-operative fireworks celebrations while such members of the old aristocracy as Reading, Standard

Oil of New Jersey and Anaconda "played dead."

These illustrations serve to indicate how one-time market favorites may become unsatisfactory mediums for trading. There is the argument that a recognized speculative leader may be depended upon to have its move sometime during the market swing. Perhaps so, but this is no reason why a trader should keep funds tied up in an issue that may remain on a dead center for many weeks at a time, at the expense of missing numerous swings in sound stocks that may lack leadership, but have well-defined trends that are amply justified by their fundamental and statistical developments.

Some market leaders carry their honors well for long periods of time, because the high quality of their management and the strength of their financial position are almost proverbial. For the patient, long-pull speculator, there is an element of conservatism about operations in such issues. A time may come, however, when even such stocks work into a price range which suggests that they are no longer moving on their merits. The trader should beware of such developments, and through constant review of statistical developments surrounding the issue under consideration make sure that the underlying quality of his favorite is not being impaired.

Other leaders maintain their ascendancy for only a few years, or a single market cycle, and then suddenly lose caste owing to industrial developments that may be obscure to the casual observer. Such leaders may be very attractive as speculative mediums while

their popularity lasts, but as soon as public confidence wavers, they yield their popularity to new favorites. If we are alert to this ever shifting leadership, then it may be fair to say that leadership is important to the trader, but our definition must be broad and flexible.

Sometimes Dangerous Though Sound

Owing to the very popularity of recognized leaders, a degree of speculative pressure often develops that is quite independent of their fundamental or statistical merits, and this force becomes more important as an influence on price movement when it accompanies an unusual variation in floating supply of the shares. Under such conditions the stock may be more amenable to deliberate manipulation, with consequent erratic movements at the pleasure of those in close touch with the situation; and to the discomfiture of traders who are basing their operations on the assumption that the cards are being as well shuffled and as fairly dealt as usual.

The market is now so rich in both number and variety of listed stocks, that many of the safest and most easily forecasted trends are to be found entirely apart from the realm of leadership. We believe that the average trader may find in the present market numerous issues of good quality, whose price trends may be determined by any careful student of the available facts, and that in this determination, a knowledge of the statistics involved will prove more important than a familiarity with market technique.

WATCH for the next issue. It will contain several hundred specially prepared definite recommendations for your year-end investments; also a complete list of low-priced stocks selling on the N. Y. Stock Exchange together with our views as to their prospects.